

Docket:	:	<u>A.06-01-004</u>
Exhibit Number	:	<u>                    </u>
Commissioner	:	<u>John Bohn</u>
Admin. Law Judge	:	<u>Hallie Yacknin</u>
DRA Project Mgr.	:	<u>Hani Moussa</u>
	:	



**DIVISION OF RATEPAYER ADVOCATES  
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**Report on the  
RESULTS OF OPERATIONS  
OF  
PARK WATER COMPANY  
CENTRAL BASIN DIVISION**

**Test Year 2007 and  
Escalation Years 2008 and 2009  
Application 06-01-004**

**For authority to increase water rates for water service.**

**San Francisco, California  
April 17, 2006**

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1 **MEMORANDUM**

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3 This report was prepared by the Division of Ratepayer Advocates (DRA) of  
4 the California Public Utilities Commission (Commission) for the general rate case  
5 proceeding regarding Park Water Company (PWC), A.06-01-004. In this  
6 proceeding PWC requests an order for authorization to increase rates charged for  
7 water service by \$1,680,500 or 8.21% in 2007; by \$571,181 or 2.57% in 2008; and  
8 by \$658,677 or 2.88% in 2009. This report presents DRA's analyses, findings,  
9 and recommendations pertaining to A.06-01-004.

10 Hani Moussa served as DRA's project coordinator in this application, and  
11 is responsible for the overall coordination in the preparation of this report. DRA's  
12 witnesses' prepared qualifications and testimony are contained in Appendix B of  
13 this report.

14 Bill Cady is DRA's legal counsel for this proceeding.  
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## EXECUTIVE SUMMARY

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### A. INTRODUCTION

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On January 5, 2006, Park Water Company (PWC) filed general rate case Application 06-01-004 (A.06-01-004), requesting authorization to increase rates charged for water service by \$1,680,500 or 8.21% in Test Year 2007; by \$571,181 or 2.57% in Escalation Year 2008; and by \$658,677 or 2.88% in Escalation Year 2009. The company requests a return on equity of 11.50% with a return on rate base of 9.82% for Test Year 2007. DRA estimates an overall revenue requirement of \$21,565,000 or an overall increase of 5.36%.

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DRA analyzed PWC's application and prepared this Report of DRA's analyses, findings, conclusions, and recommendations. DRA's cost-of-capital report is submitted concurrently with this Report, is incorporated in its entirety herein, and by this reference is made a part hereof; it analyzes PWC's cost-of-capital and presents DRA's argument in support of its recommended rate of return.

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### B. SUMMARY

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DRA submits this report as its opening testimony in A.06-01-004. This report represents DRA's analyses, findings, conclusions, and recommendations resulting from its review of PWC's general rate case application. DRA estimates an overall revenue requirement of \$21,565,000, which constitutes an overall increase of 5.36%.

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#### Summary of Earnings

23

Test Year 2007

DRA (Present)	PWC (Present)	DRA Recommended	PWC Requested
\$20,467,400	\$20,467,400	\$21,565,000	\$22,147,900

## **C. KEY RECOMMENDATIONS**

### **1) Chapter 1 – Summary of Earnings**

DRA estimates an overall revenue requirement for PWC of \$21,565,000, which is an overall increase of \$ 1,097,600 (5.36%).

### **2) Chapter 2 – Customers, Sales and Revenues**

DRA agrees with PWC's estimates of customers. The total number of customers is estimated to increase from 27,305 in 2004 to 27,925 in Test Year 2007. This represents an average annual customer growth rate of less than 1%. DRA's estimated total sales is 13,294.0 ccf compared with PWC's estimates of 13,294.0 ccf. There are no differences, as DRA accepts PWC's estimates of total sales.

### **3) Chapter 3 – Operation and Maintenance Expenses**

DRA estimates a total for operating and maintenance expenses of \$10,476,900. DRA's recommendation is \$72,300 lower than PWC's estimate of \$10,549,100. This difference is primarily due to DRA's application of more recent escalation figures (provided in Appendix A to this report).

### **4) Chapter 4 – Administrative and General Expenses**

PWC requested \$6,043,700 for the Test Year 2007 as shown in Table 4-1. DRA disagrees with the insurance premium estimates and recommends calculating the administrative and general expenses using the latest escalation factors. DRA recommends \$5,934,900 for Test Year 2007 administrative and general expenses.

### **5) Chapter 5 – Taxes Other Than Income**

The difference in taxes other than income estimated for Test Year 2007 between DRA and PWC are primarily due to the differences in estimated plant and payroll expenses. A comparison is illustrated in Table 5-1.

1                   **6) Chapter 6 – Income Taxes**

2                   The difference in income taxes estimated for Test Year 2007 between DRA  
3                   and PWC are primarily due to the differences in revenues, expenses, and rate base.  
4                   A comparison is illustrated in Table 6-1 and 6-2.

5                   **7) Chapter 7 – Conservation**

6                   DRA recommends that PWC's conservation estimates be accepted.  
7                   However, DRA also recommends that in future rate cases, PWC include a  
8                   cost/benefit analysis for the elements of their conservation program.

9                   **8) Chapter 8 – Utility Plant in Service**

10                  DRA concurs with PWC's estimates on the majority of the utility plant  
11                  additions scheduled for completion in 2006, 2007, and 2008, including the new  
12                  well and other upgrades proposed to meet the provisions in the California Code of  
13                  Regulations, Section 4503 – Suspension of Deliveries (b) which states:

14                  “Each member agency shall have sufficient resources such as local  
15                  reservoir storage, groundwater production capacity, system interconnections or  
16                  alternate supply source to sustain a seven-day interruption in Metropolitan  
17                  deliveries based on annual average demand.”

18                  PWC has performed neither any study nor analysis of any cost benefits or  
19                  other related savings associated with the Graphical Information System (GIS)  
20                  project nor identified any service problems or health violations that would be  
21                  corrected through the implementation of the GIS project. On that basis, DRA  
22                  believes that the GIS project is unneeded and, therefore recommends that PWC  
23                  continue to operate as it does presently, which DRA has found satisfactory, based  
24                  on low customer complaints and a very good record on loss of water.

25                  Therefore, DRA recommends that PWC's request of \$393,000 for the GIS  
26                  project be disallowed.

1                   **9) Chapter 9 – Depreciation Expense and Reserve**

2                   Differences in DRA's and PWC's estimates are the result of different plant  
3 additions and advances used for the test year. These differences are discussed in  
4 Chapter 8, Utility Plant in Service. A comparison is illustrated in Table 9-1 and 9-  
5 2.

6                   **10) Chapter 10 – Rate Base**

7                   DRA recommends a weighted average rate base of \$24.527 million for Test  
8 Year 2007. DRA's estimate is lower by \$198.00 thousand or 0.8% when  
9 compared to PWC's request of \$24.725 million. Tables 10-1 and 10-2 provide a  
10 summary of DRA's weighted average rate base and depreciated rate base.

11                   **11) Chapter 11 – Rate Design**

12                   DRA recommends that PWC's rate design be accepted.

13                   **12) Chapter 12 – Water Revenue Adjustment**  
14 **Mechanism (WRAM)**

15                   DRA recommends that the Commission deny PWC's request for a WRAM  
16 balancing account. PWC has not made any specific proposal except for requesting  
17 that it be given a similar WRAM to that requested by California Water Service  
18 Company (CWS). The Commission has not issued a final decision in the CWS'  
19 rate case. Although, DRA and CWS have reached a settlement on how WRAM  
20 should be implemented pursuant to the CWS proceeding, it is uncertain at this  
21 time whether the Commission will adopt the settlement as submitted, or whether it  
22 will be modified. Furthermore, the final and yet unknown WRAM outcome in the  
23 CWS rate case may not be acceptable to PWC, which may be opposed to  
24 implementing it in whole or in part.

25                   **13) Chapter 13 – Escalation Years**

26                   For illustration purpose, DRA recommends a rate increase of 2.99% or  
27 \$645,000 in Escalation Year 2008 and 2.63% or \$585,000 in Escalation Year

1 2009. The actual increases will be determined when PWC files its advice letter for  
2 its attrition adjustments in 2008 and 2009.

#### 3 **14) Low Income Program**

4 Pursuant to the Scoping Memo issued on March 28, 2006, PWC's low-  
5 income program will be addressed in a second phase. PWC will serve its  
6 supplemental report on July 7, 2006 and DRA will serve its report on July 28,  
7 2006. To the extent possible, DRA will be working with PWC to develop the low-  
8 income program.

#### 9 **15) Customer Service**

10 DRA found 15 informal complaints on record over the past 28 months with  
11 none of the complaints recorded related to service. DRA recommends that the  
12 Commission find PWC's customer service response to water service complaints to  
13 be satisfactory.

#### 14 **16) Water Quality Memorandum Account**

15 PWC requested the under collection balance of \$43,890 in its Water  
16 Quality Memorandum Account to be transferred to its production cost balancing  
17 accounts as stated in its application.

18 Commission Resolution W-4094 authorized Apple Valley Ranchos Water  
19 Company (AVR) to establish a memorandum account for water quality litigation  
20 expenses. AVR's memorandum account was established for expenses related to  
21 participation in the Commission's Water Quality OII (I.98-03-013). Transfer of  
22 the balance in the water quality memorandum account to the production cost  
23 balancing accounts is a recovery mechanism previously utilized by the  
24 Commission. As in D.99-06-010 (June 3, 1999) AVR was authorized to transfer  
25 the balance of its sewer capital memorandum account into its production cost  
26 balancing accounts. Also, the Commission approval of AVR's Advice Letter  
27 #176 on May 7, 1999, allowed the transfer of the balance in the conservation  
28 memorandum account into its production cost balancing accounts.

1       DRA does not oppose PWC's request. However, it is not clear from  
2 PWC's request whether the Water Quality Memorandum Account will be closed  
3 after the under collected balance is transferred to the production cost balancing  
4 accounts. Memorandum accounts are authorized by the Commission for specific  
5 events, such as catastrophic events, or contamination litigation to allow the utility  
6 to track costs for later review and recovery. Once resolution of the event has been  
7 complete and the utility has been granted rate recovery for the balance by the  
8 Commission, the memo account is closed. There is no indication by PWC  
9 whether it expects any further costs associated with the event which resulted in the  
10 current under collection.

#### 11               **17) Department of Health Services (DHS)**

12       PWC's Central Basin Division service area consists of three separate  
13 systems in southeastern Los Angeles County. The Department of Health Services  
14 (DHS) inspects each of the three systems separately.

15       The Lynwood system, also referred to as the Compton East System, was  
16 last inspected by DHS on January 18, 2005. By letters dated February 18, 2005  
17 and August 30, 2005, DHS found PWC's Compton East System is in satisfactory  
18 operating condition overall with all inspection findings adequately addressed.

19       The Compton/Willowbrook system, also referred to as the Compton West  
20 System, was last inspected by DHS on January 18, 2005. By letter dated March 9,  
21 2005, DHS found PWC's Compton West System is in satisfactory operating  
22 condition overall.

23       The Bellflower/Norwalk system was last inspected by DHS on May 17,  
24 2005. By letter dated May 19, 2005, DHS found PWC's Bellflower/Norwalk  
25 system is in satisfactory operating condition overall.

1 The following table lists the chapters and DRA witnesses.

2 **List of DRA Witnesses and Respective Chapters**

Chapter Number	Description	Witness
-	Executive Summary	Hani Moussa
1	Summary of Earnings	Hani Moussa
2	Customers, Sales and Revenues	Karin Hieta
3	Operation and Maintenance Expenses	Martin Homec
4	Administrative and General Expenses	Martin Homec
5	Taxes Other than Income	Martin Homec
6	Income Taxes	Hani Moussa
7	Conservation	Karin Hieta
8	Utility Plant in Service	Hani Moussa
9	Depreciation Expense and Reserve	Hani Moussa
10	Rate Base	Hani Moussa
11	Rate Design	Karin Hieta
12	Water Revenue Adjustment Mechanism (WRAM)	Hani Moussa
13	Escalation Years	Hani Moussa
	Appendix A (Escalation Factors)	
	Appendix B (Qualifications and Prepared Testimony)	All

1 **CHAPTER 1: SUMMARY OF EARNINGS**

2 **A. INTRODUCTION**

3 This report sets forth the analysis and recommendations of DRA pertaining  
4 to A.06-01-004, PWC's general rate increase request for Test Year 2007 and  
5 Escalation Years 2008 and 2009.

6 **B. SUMMARY OF RECOMMENDATIONS**

7 Tables 1-1 and 1-2 at the end of this chapter illustrates DRA's and PWC's  
8 Summary of Earnings of operations for the Test Year 2007 (At Present Rates and  
9 At Proposed Rates) including revenues, expenses, taxes and rate base.

10 **C. DISCUSSION**

11 The total revenues requested by PWC are as follows:

12	<u>Year</u>	<u>Amount of Increase</u>	<u>Percent</u>
13	2007	\$ 1,680,500	8.21%
14	2008	\$ 571,181	2.57%
15	2009	\$ 658,677	2.88%

16 PWC estimates that its proposed rates in the application will produce  
17 revenues providing the following returns:

18	<u>Year</u>	<u>Return on Rate Base</u>	<u>Return on Equity</u>
19	2007	9.82%	11.5%

20 **D. CONCLUSION**

21 DRA recommends revenue increase for the test year as follows:

22	<u>Year</u>	<u>Amount of Increase</u>	<u>Percent</u>
23	2007	\$ 1,097,600	5.36%

24 DRA recommends the following returns:

25	<u>Year</u>	<u>Return on Rate Base</u>	<u>Return on Equity</u>
26	2007	9.09%	10.14%

1           The last general rate increase for PWC was authorized by Decision D.03-  
2 12-040    in Application A.03-04-015, resulting in a rate of return on rate base of  
3 9.51% in 2004. In D.03-12-040, the Commission authorized PWC a rate of return  
4 of 9.49% for 2006. Present Rates used by DRA in this report are those authorized  
5 by advice letter 189-W, effective January 1, 2006.

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TABLE 1-1  
PARK WATER CO.-CENTRAL BASIN DIV.  
SUMMARY OF EARNINGS  
TEST YEAR 2007  
(AT PRESENT RATES)

Item	DRA Estimate	PARK Estimate	PARK exceeds DRA	
			Amount	%
(Thousands of \$)				
Operating revenues	20,467.4	20,467.4	0.0	0.0%
Operating expenses:				
Operation & Maintenance	10,476.9	10,549.1	72.3	0.7%
Administrative & General	5,934.9	6,043.7	108.8	1.8%
G. O. Prorated Expense	0.0	0.0	0.0	0.0%
Depreciation & Amortization	1,330.9	1,368.6	37.7	2.8%
Taxes other than income	584.4	589.0	4.6	0.8%
State Corp. Franchise Tax	97.3	79.7	(17.6)	-18.1%
Federal Income Tax	435.5	374.2	(61.3)	-14.1%
Total operating exp.	18,859.9	19,004.4	144.5	0.8%
Net operating revenue	1,607.5	1,463.0	(144.5)	-9.0%
Rate base	24,526.8	24,725.2	198.4	0.8%
Return on rate base	6.55%	5.92%	-0.64%	-9.7%

TABLE 1-2  
PARK WATER CO.-CENTRAL BASIN DIV.  
SUMMARY OF EARNINGS  
TEST YEAR 2007  
(AT PROPOSED RATES)

Item	DRA	PARK	PARK	
	Estimate	Estimate	exceeds DRA	
			Amount	%
(Thousands of \$)				
Operating revenues	21,565.0	22,147.9	582.9	2.7%
Operating expenses:				
Operation & Maintenance	10,483.8	10,556.0	72.3	0.7%
Administrative & General	5,941.6	6,050.4	108.8	1.8%
Depreciation & Amortization	1,330.9	1,368.6	37.7	2.8%
Taxes other than income	584.4	589.0	4.6	0.8%
State Corp. Franchise Tax	192.4	227.1	34.6	18.0%
Federal Income Tax	801.2	940.9	139.7	17.4%
Total operating exp.	19,334.3	19,732.1	397.8	2.1%
Net operating revenue	2,230.7	2,415.8	185.1	8.3%
Rate base	24,526.8	24,725.2	198.5	0.8%
Return on rate base	9.09%	9.77%	0.68%	7.4%

## **CHAPTER 2: CUSTOMERS, SALES AND REVENUES**

### **A. INTRODUCTION**

This chapter presents DRA's analysis and recommendations regarding customers, sales and revenues for PWC in Test Year 2007.

### **B. SUMMARY OF RECOMMENDATIONS**

DRA agrees with PWC's estimates of customers. The total number of customers is estimated to increase from 27,305 in 2004 to 27,925 in Test Year 2007. This represents an average annual customer growth rate of less than 1%. DRA's estimated total sales is 13,294.0 ccf compared with PWC's estimates of 13,294.0 ccf. There are no differences, as DRA accepts PWC's estimates of total sales.

### **C. DISCUSSION**

#### **1) Estimating Customer Growth**

According to PWC's Revenue Requirements Report for Test Year 2007, customer growth for all areas was forecasted based on the previous five year average growth as required by D.04-06-018. PWC showed no reason to deviate from this method, and DRA accepts PWC's estimates for the number of customers in each of its customer categories. The number of residential customers are estimated to increase by 117 customers per year, the business class is estimated to grow by four customers per year, the public authority class is estimated to grow by one customer per year, the private fire service class is estimated to grow by three customers per year, and the reclaimed water class and industrial class are estimated to have no growth.

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TOTAL NUMBER OF PROJECTED CUSTOMERS BY CLASS  
TEST YEAR 2007

Test	Residential	Business	Industrial	Public Authority	Private Fire	Reclaimed
	25,548	1,725	5	186	164	28

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5       **2) Estimating Customer Unit Consumption**

6       According to PWC's Revenue Requirements Report for Test Year 2007,  
7 PWC used monthly econometric techniques for estimating unit residential  
8 consumption, including using a dummy variable for each month. DRA redid  
9 PWC's analysis with and without using monthly dummy variables. The difference  
10 in estimating methodologies was not material. Accordingly, DRA accepts PWC's  
11 estimate for customer unit consumption for the test year.

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13                                   PROJECTED WATER USE  
14                                   (ccf/customer)

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Year	Residential	Business	Industrial	Reclaimed	Public Authority
2004	168.8	754.8	4,163.9	7,319.0	1,450.9
2005	170.5	744.1	3,620.7	7,319.2	1,439.4
2006	172.2	733.4	3,077.5	7,319.4	1,427.9
2007	173.9	722.6	2,534.2	7,320.2	1,416.5
R <sup>2</sup>	0.938	0.829	0.659	0.768	0.858

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1           **3) Estimating PWC’s Operating Revenues**

2           PWC’s operating revenues are computed from its proposed rates and its  
3 estimates of customer counts and unit consumption. PWC’s proposed rates are  
4 determined by the previous adopted revenue requirement and any attrition  
5 adjustments. DRA accepts PWC’s proposed revenues at present rates of  
6 \$20,296,362 for Test Year 2007.

7           **4) Dealing with PWC’s Unaccounted-for-Water**

8           PWC is estimating its unaccounted-for-water at 2% for Test Year 2007.  
9 PWC calculated this estimate by subtracting the forecasted sales from the  
10 forecasted production and dividing that number by the forecasted production.  
11 DRA finds that this is a reasonable method. Both the past-five-year average and  
12 the estimate going-forward are within the generally accepted industry standard of  
13 10%. DRA accepts PWC’s unaccounted-for-water estimates with no  
14 recommendations.

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## **CHAPTER 3: OPERATION AND MAINTENANCE EXPENSES**

### **A. INTRODUCTION**

This chapter presents DRA's analysis and recommendations on Operations and Maintenance (O&M) for PWC. Table 3-1 at the end of this chapter illustrates DRA's and PWC's estimates in detail for the Test Year 2007.

### **B. SUMMARY OF RECOMMENDATIONS**

DRA estimates a total for operating and maintenance expenses of \$10,476,900. DRA's recommendation is \$72,300 lower than PWC's estimate of \$10,549,100. This difference is primarily due to DRA's application of more recent escalation figures (provided in Appendix A to this report).

### **C. DISCUSSION**

DRA analyzed PWC's reports, supporting work papers, PWC's responses to data requests, other information provided in meetings, telephone conversations and e-mails, and PWC's methods of estimating O&M expenses before making its independent estimates.

PWC states that O&M expenses are based on a five-year (2001 - 2005) average of recorded expenses removing any non-recurring items and then escalated to the Test Year. Each recorded entry was escalated to constant dollars using DRA's escalation factors for August 2005. This is the same methodology recommended by DRA. PWC used DRA's August 2005 escalation factors while DRA used the later, February 2006 escalation factors.

#### **1) INFLATION FACTORS**

DRA used the following set of inflation factors as appropriate for the year and categories from DRA's Energy Cost of Service Branch Escalation Memorandum of February 28, 2006, of estimates of non-labor and wage escalation rates for 2005 through 2009, Global Insight U.S. Economic Outlook, and the February 2006 Summary of Compensation Per Hour memorandum. Composite

1 rates are derived by summing 60% of the corresponding calendar year non-labor  
2 rate and 40% of the corresponding calendar year compensation per hour rate.

### 3           **2) O&M PAYROLL EXPENSE**

4           O&M payroll is divided into four categories: Operations Payroll,  
5 Customers Payroll, Maintenance Payroll, and Clearings Payroll. PWC's payroll  
6 estimate for 2007 is based on employees' hourly rates in effect at the end of 2005  
7 by individual employees, including estimated overtime by individual employees,  
8 and estimated merit salary adjustments to be granted during 2006. This is then  
9 escalated by the utilities expected Cost of Living Adjustment (COLA) increase of  
10 3% for 2006 to derive the Test Year estimate of \$2,028,000.

11           DRA uses this same methodology to estimate Test Year O&M payroll costs  
12 but used a different COLA increase and subtracted one employee as the savings to  
13 be achieved by replacing the standard water meters with remote sensing water  
14 meters. DRA uses the 2006 labor inflation factor of 2.2%, to estimate \$1,973,400  
15 for the Test Year 2007. DRA's estimate is more reasonable than PWC's because  
16 DRA uses the most current escalation factor and subtracts the salary savings of  
17 approximately \$45,000 with the replacement of mechanical water meters with  
18 advanced electronic meters. This adjustment is discussed further in Chapter 8 of  
19 this report.

### 20           **3) PURCHASED POWER**

21           Purchased power is the cost of electricity needed to operate the pumping  
22 and delivery of water. Both PWC and DRA use the same Southern California  
23 Edison rates in effect on July 1, 2005. The estimate of purchased power varies  
24 with the quantities of water delivered; PWC assumes 1,500 acre-feet per year.  
25 PWC developed the total amount of power required for the Test Year from the  
26 ratio of power consumption and water production (KWH/Therms per CCF) by  
27 individual wells and boosters from 2002 through 2004. This is used to calculate  
28 the Test Year power consumption cost of \$179,704. DRA accepts PWC's  
29 estimate.

1           **4)     LEASED WATER RIGHTS**

2           PWC estimated \$270,000 in 2006 and 2007 for leased water rights. PWC  
3 leases water rights from 21 other parties listed page 4 – 5 of the work papers,  
4 because it does not have sufficient well capacity to provide water service to its  
5 customers. PWC assumes constant water lease rates of \$180 per acre-foot for this  
6 application. DRA reviewed the term and conditions of the contracts and does not  
7 dispute Park's estimated water lease rate.

8           **5)     REPLENISHMENT CHARGES**

9           PWC estimated replenishment charges of \$201,990 for the test year. These  
10 charges were not explained in the application. Former applications described this  
11 charge as an assessment required by the Basin Water Master and levied on  
12 pumpers to offset the costs of administering a stipulated judgment and to purchase  
13 replacement and make-up water in the basin.

14           DRA finds these costs to be reasonable and accepts the company's estimate  
15 for the test year. DRA also notes that changes in the replenishment costs due to  
16 revision to the charges are tracked in PWC's water supply balancing account.

17           **6)     CHEMICALS EXPENSES**

18           For chemicals expenses, PWC estimated \$7,984 for 2007 by calculating the  
19 five-year average for the previous five years and using an estimate for 2005 since  
20 the application was filed before the costs were finalized. DRA concurs with  
21 PWC's methodology for estimating this expense, but used the final recorded  
22 chemical expenses for 2005. Then this number was escalated to \$8,417 for the test  
23 year expense. DRA's estimate is greater than PWC's due to the 2005 recorded  
24 amount being higher than the 2005 estimated annualized costs for chemicals  
25 provided in PWC's application.

26           **7)     OPERATIONS – OTHER**

27           PWC used a five-year average for Operations-Other expenses recorded as  
28 constant dollars to estimate the test year expense of \$1,197,700. DRA finds the  
29 application of a five-year average methodology to be reasonable. DRA estimate

1 of \$1,179,500 is \$18,200 less than PWC's estimate due to DRA's use of the most  
2 recent escalation factors in the calculation, while PWC used August 2005  
3 escalation numbers.

TABLE 3-1  
PARK WATER CO.-CENTRAL BASIN DIV.  
OPERATION & MAINTENANCE EXPENSES  
TEST YEAR 2007

Item	DRA	PARK	PARK exceeds DRA	
			Amount	%
(Thousands of \$)				
<u>At present rates</u>				
Operating Revenues	20,467.4	20,467.4		
Uncollectible rate	<u>0.41000%</u>	<u>0.41000%</u>		
Uncollectibles	83.9	83.9	0.0	0.0%
<u>Operation &amp; Maintenance Expenses</u>				
Purchased Water	6,579.9	6,579.9	(0.0)	0.0%
Replenishment Assessment	202.0	202.0	(0.0)	0.0%
Leased Water Rights	270.0	270.0	0.0	0.0%
Purchased Power	179.7	179.7	0.0	0.0%
Purchased Chemicals	8.4	8.0	(0.4)	-5.1%
Payroll (O & M, Customers)	1,973.4	2,028.0	54.6	2.8%
Uncollectibles	83.9	83.9	0.0	0.0%
Other Expenses	1,179.5	1,197.7	18.1	1.5%
Total O & M Expenses	10,476.9	10,549.1	72.3	0.7%
<u>At proposed rates</u>				
Operating Revenues	22,147.9	22,147.9		
Uncollectible rate	<u>0.41000%</u>	<u>0.41000%</u>		
Uncollectibles	90.8	90.8		
Total O & M Expenses (incl uncoll)	10,483.8	10,556.0	72.3	0.7%

1                   **CHAPTER 4: ADMINISTRATIVE AND GENERAL**  
2                   **EXPENSES**  
3

4           This section describes DRA's analyses and recommendations for PWC's  
5   A&G expenses. PWC requests \$6,043,700 for the Test Year as shown in Table 4–  
6   1. DRA disagrees with the insurance premium estimates and recommends  
7   calculating the A&G expenses using the latest escalation factors. DRA  
8   recommends a 2007 Test Year total of \$5,934,900 for A&G expenses.

9           **1)     A&G PAYROLL EXPENSE**

10          PWC's A&G payroll estimate for 2007 is based on projected employees'  
11   hourly rates in effect at the end of 2005 by individual employees, including  
12   estimated overtime by individual employees, and estimated merit salary  
13   adjustments to be granted during 2006. This is then escalated by the COLA to  
14   derive a Test Year estimate of \$1,454,024.

15          DRA uses this same methodology to estimate Test Year A&G payroll costs  
16   to be \$1,447,100, using a different COLA increase. PWC uses a 3% inflation  
17   factor but DRA uses the 2006 labor inflation factor which is 2.2%. DRA  
18   recommends that the most recent inflation be adopted and applied for developing  
19   the 2007 Test Year estimates.

20          **2)     PENSION AND BENEFITS**

21          PWC's employee pension and benefits are generally estimated based on the  
22   current premiums escalated by the expected percentage increase in payroll as well  
23   as changes in basic rates. However, other items are based on advice by PWC's  
24   benefits' consultants and their existing insurance broker.

25          PWC's estimates for medical insurance premiums are 8.5% more than 2006  
26   for 2007 and 8% more than 2007 for 2008. Similarly, dental premiums are  
27   estimated to be 6% larger in 2007 and 5.75% higher in 2008. PWC's estimate is  
28   \$1,196,100 for employee benefits. DRA concurs with PWC's estimate for pension  
29   and benefits.

1           **3)     INSURANCE**

2           Business liability policies such as auto insurance are based on annual  
3 premiums and estimated premium increases anticipated by PWC's insurance  
4 broker. Workers compensation premiums are also tied to estimated overall payroll  
5 changes. A reduced payroll estimate can reduce the insurance premium estimate.

6           PWC's 2007 Test Year estimate is \$889,709 for its total insurance cost and  
7 is based upon a 5.25% payroll increase. Workers Compensation insurance is  
8 calculated separately and PWC estimates \$244,102 for the Test Year. DRA  
9 disagrees with the company's estimate, because it is based upon the premiums  
10 charged by its existing workers compensation insurer. PWC did not shop for  
11 lower cost insurers and estimates that its 2007 workers compensation insurance  
12 rate will be 9% lower than its 2006 rate. DRA applied different expected  
13 workman's compensation insurance rates to develop its estimate of \$819,124 for  
14 the Test Year 2007 Insurance (Injuries and Damages).

15          DRA contacted the Workers' Compensation Insurance Rating Bureau of  
16 California and found that municipal waterworks employers experienced an  
17 average 35% decrease in rates between January 1, 2005, and January 1, 2006.<sup>1</sup>  
18 Accordingly, DRA recommends that PWC's estimated workers compensation  
19 insurance premiums for the test year be based on the municipal waterworks  
20 expected premium decrease of 35%, and not the 9% rate proposed by PWC. This  
21 resulted in a DRA recommendation of \$172,063 for the workers compensation  
22 allowance entered into account number 6620.10 for 2007.

23           **4)     REGULATORY EXPENSE**

24          PWC's is requesting a total of \$169,000 in General rate cases expenses for  
25 2005. The company is requesting to amortize this amount over three year period,  
26 or \$56,355 annually. The company's estimate is based on the cost of its 2005  
27 general rate case for Apple Valley Ranchos Water Company, A.05-02-005. This

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<sup>1</sup> See: [http://www.csac-eia.org/pdfs/2006\\_Pure\\_Premium\\_Rates.pdf](http://www.csac-eia.org/pdfs/2006_Pure_Premium_Rates.pdf)

1 cost is escalated using the standard escalation factors. DRA agrees with the  
2 methodology but uses the more recent escalation factors, which results in the same  
3 level of expenses.

#### 4 **5) OUTSIDE SERVICES**

5 PWC's estimate of \$134,764 is calculated using the five-year escalated  
6 average of outside services but also includes \$39,000 additional expenses ordered  
7 by the CPUC. DRA agrees with this estimate. Using more recent escalation  
8 factors causes DRA's estimate to be \$135,611.

#### 9 **6) OFFICE SUPPLIES**

10 PWC estimated \$378,600 by escalating the five year average of past  
11 expenses. However, PWC is also proposing to replace its Verizon  
12 communications service with broadband. (See **Chapter 8 – Utility Plant in**  
13 **Service**) Therefore, DRA subtracts the \$22,572 savings realized by this change.  
14 DRA's recommended estimate for Test Year 2007 Office Supplies is \$349,800.

TABLE 4-1  
PARK WATER CO.-CENTRAL BASIN DIV.  
ADMINISTRATIVE & GENERAL EXPENSES  
TEST YEAR 2007

Item	DRA	PARK	PARK exceeds DRA	
			Amount	%
(Thousands of \$)				
<u>AT PRESENT RATES</u>				
Oper. Rev.	20,467.4	20,467.4	0.0	0.0%
Fran. Tax rate	0.4000%	0.40%	0.0	0.0%
Payroll	1,447.1	1,454.0	6.9	0.5%
Pension and Benefits	1,196.1	1,196.1	0.0	0.0%
Insurance (Injuries & Damages)	819.1	889.7	70.6	8.6%
Uninsured Property Damages	0.0	0.0	0.0	0.0%
Regulatory Commission Exp.	56.4	56.4	0.0	-0.1%
Outside Services	135.6	134.8	-0.8	-0.6%
Office Supplies	349.8	378.6	28.8	8.2%
Admin Charges Trsf	(149.9)	(149.9)	0.0	0.0%
Miscellaneous	90.8	94.2	3.4	3.8%
Rent	0.0	0.0	0.0	0.0%
Main Office Allocation	1,908.0	1,908.0	0.0	0.0%
Franchise Requirements	81.9	81.9	0.0	0.0%
Total A & G Expenses	5,934.9	6,043.7	108.8	1.8%
<u>AT PROPOSED RATES</u>				
Franchise Requirements	88.6	88.6		
Other Expenses Total	5,853.0	5,961.8	108.8	1.9%
Total A & G Expenses	5,941.6	6,050.4	108.8	1.8%

## **CHAPTER 5: TAXES OTHER THAN INCOME**

### **A. INTRODUCTION**

This chapter sets forth DRA's analysis of taxes other than income taxes for PWC's test year 2007. Taxes other than income include ad valorem tax (property tax). DRA's and PWC's estimates for the test year 2007 are included in Table 5-1.

### **B. SUMMARY OF RECOMMENDATIONS**

The difference in taxes other than income estimated for test year 2007 between DRA and PWC are primarily due to the differences estimated plant and payroll expense.

### **C. DISCUSSION**

#### **1) AD VALOREM TAXES**

PWC's ad valorem tax estimates are based on the estimated assessed value placed on PWC's property for the test year by the Los Angeles County Assessor's Office and the rates already in effect. The estimates of the assessed value are calculated based on the estimated plant additions, retirements, advances, contributions, Construction Work in Progress (CWIP), and Materials and Supplies (M&S) using the same assessment methodology employed by the Los Angeles County Assessor's office. DRA's estimate for PWC's Ad Valorem Tax is \$232,408. The difference in Ad Valorem Tax is primarily due to differences in estimates for plant additions, retirements, advances, contributions, CWIP, and M&S.

#### **2) PAYROLL TAXES**

Payroll taxes include Social Security tax, Federal Insurance Contribution Act (FICA) tax consisting of Old Age Benefits and Medicare, Federal Unemployment Insurance (FUI), and State Unemployment Insurance (SUI). PWC estimates payroll taxes using the rates and limits applicable in 2005 according to

1 PWC's budget and portions allocated from the main office expenses. Then, the  
2 taxes are escalated to the test year by the labor escalation factor.

3 DRA's estimates \$313,000 for PWC's payroll taxes, including the main  
4 office related expense, for Test Year 2007. The difference between DRA and  
5 PWC is primarily due to the difference level of payroll expense calculated for Test  
6 Year 2007.

7 DRA's **Chapter 8 – Utility Plant in Service** explains the reduction of one  
8 meter reader position which reduces the test year payroll estimate by \$45,000.  
9 This adjustment results in lower payroll tax obligations of \$240,677 plus the main  
10 office expense allocation of \$68,500. Thus, DRA recommends \$309,177 instead  
11 of PWC's recommended \$313,919.

1  
2

TABLE 5-1  
PARK WATER CO.-CENTRAL BASIN DIV.  
TAX DEDUCTIONS AND CREDITS  
TEST YEAR 2007

Item	DRA	PARK	PARK exceeds DRA	
			Amount	%
(Thousands of \$)				
Payroll Taxes				
Central Basin				
Div.	240.7	245.0	4.3	1.8%
Main Office Allocation	68.5	68.5	(0.0)	0.0%
Ad Valorem				
taxes				
Central Basin				
Div.	232.4	232.7	0.3	0.1%
Main Office Allocation	8.3	8.3	0.0	0.2%
Other	34.5	34.5	0.0	0.1%
Taxes other than income	584.4	589.0	4.6	0.8%
California Tax Depreciation	1,485.6	1,492.8	7.2	0.5%
Federal Tax Depreciation	1,189.7	1,195.5	5.8	0.5%
State Income Tax	97.3	79.7	(17.6)	-18.1%
Pre. Stock Div. Credit	0.0	0.0	0.0	0.0%
Fed. Tax				
Deduction	1,287.1	1,275.2	(11.8)	-0.9%

## CHAPTER 6: INCOME TAXES

### A. INTRODUCTION

This chapter sets forth DRA's analysis of Income Taxes. Tables 6-1 and 6-2 compare in detail the tax deductions and taxes estimated by DRA and PWC.

### B. SUMMARY OF RECOMMENDATIONS

The difference in income taxes estimated for test year 2007 between DRA and PWC are primarily due to the differences in revenues, expenses, and rate base.

### C. DISCUSSION

The tax deductions and credits in this proceeding were calculated in accordance with the normalization requirements of the Economic Recovery Tax Act of 1981 (ERTA). Further, the provisions of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) have been incorporated in the tax deduction estimates. Finally, the provisions of the Tax Reform Act of 1986 (TRA 86) have been estimated and included into this general rate case in accordance with the requirements of Decision 87-09-026 dated September 10, 1987, Decision 87-12-028 dated December 9, 1987 and Decision 88-01-061 dated January 28, 1988.

Some of the provisions of TRA 86 have been incorporated into California Corporation Franchise Tax (CCFT) law in the California Bank and Corporation Tax Fairness, Simplification and Conformity Act of 1987 (State Tax Act of 1987). The provisions have been estimated and integrated into the CCFT calculations for this general rate case.

DRA calculated tax depreciation for state and federal income tax purposes by applying the ratio of DRA's estimate of net plant to PWC's estimate of net plant to PWC's tax depreciation estimate. This methodology will be trued up when a Commission decision is issued in this case.

1 To calculate the interest deduction, both DRA and PWC used its ratebase  
2 and multiplied by the weighted cost of debt.

3 Decision 89-11-058 issued on November 22, 1989 requires that for  
4 ratemaking purposes the prior year's CCFT should be used in the calculation of  
5 the test year's FIT. The requirements of that decision have been incorporated in  
6 this general rate case by both DRA and PWC. The prior year's CCFT was used as  
7 a deduction in arriving at the test year's estimated FIT.

8 Corporations may deduct dividends paid on special preferred stock issues  
9 or issues made to redeem such preferred stock. The Preferred Stock Dividend  
10 Credit tax deduction reflects this.

11 PWC included the effects of Tax Relief Act of 2003 in its filings. DRA  
12 used the same methodology to calculate its deferred tax.

TABLE 6-1  
PARK WATER CO.-CENTRAL BASIN DIV.  
TAXES BASED ON INCOME  
TEST YEAR 2007  
(PRESENT RATES)

Item	DRA	PARK	PARK exceeds DRA	
			Amount	%
(Thousands of \$)				
Operating revenues	20,467.4	20,467.4	0.0	0.0%
Deductions:				
O & M expenses	10,476.9	10,549.1	72.3	0.7%
A & G expenses	5,934.9	6,043.7	108.8	1.8%
Taxes not on Income	584.4	589.0	4.6	0.8%
Interest	892.8	900.0	7.2	0.8%
Meals Adjustment	(8.3)	(9.0)	(0.7)	7.9%
Income before taxes	2,586.8	2,394.5	(192.3)	-7.4%
<u>Calif. Corp. Franchise</u>				
<u>Tax</u>				
State Tax Deductions	(1,485.6)	(1,492.8)	-7.2	0.5%
Taxable income for				
CCFT	1,100.2	901.7.0	(199.5)	-18.1%
CCFT Rate	8.84%	8.84%		
CCFT	97.3	79.7	(17.6)	-18.1%
<u>Federal Income Tax</u>				
Tax Depreciation	1,189.7	1,195.5	5.8	0.5%
State Corp Franch Tax	97.3	79.7	(17.6)	-18.1%
Pref Stock Divident				
Credit	0.0	0.0	0.0	0.0%
Taxable income for FIT	1,298.8	1,119.3	(180.4)	-13.9%
FIT Rate	34.00%	34.00%		
FIT	441.9	380.6	(61.3)	-13.9%
Investment Tax Credit	(6.4)	(6.4)	0.0	-0.8%
Net Federal Income Tax	435.5	374.2	(61.3)	-14.1%
Total FIT & CCFT	968.4	828.1	(140.2)	-14.5%

TABLE 6-2  
PARK WATER CO.-CENTRAL BASIN DIV.  
TAXES BASED ON INCOME  
TEST YEAR 2007  
(PROPOSED RATES)

Item	DRA (Thousands of \$)	PARK	PARK exceeds DRA	
			Amount	%
Operating revenues	21,565.0	22,147.9	582.9	2.7%
Deductions:				
O & M expenses	10,483.8	10,556.0	72.3	0.7%
A & G expenses	5,941.6	6,050.4	108.8	1.8%
Taxes not on Income	584.4	589.0	4.6	0.8%
Interest	892.8	900.0	7.2	0.8%
Meals adjustment	(8.3)	(9.0)	(0.7)	7.9%
Income before taxes	3,662.5	4,061.4	398.9	10.9%
<u>Calif. Corp. Franchise Tax</u>				
State Tax Deductions	(1,485.6)	(1,492.8)	-7.2	0.5%
Taxable income for CCFT	2,176.9	2,568.6	391.7	18.0%
CCFT Rate	8.84%	8.84%		
CCFT	192.4	227.1	34.6	18.0%
<u>Federal Income Tax</u>				
Tax Depreciation	1,189.7	1,195.5	5.8	0.5%
State Corp Franch Tax	97.3	79.7	-17.6	-18.1%
Pref Stock Divident Credit	0.0	0.0	0.0	0.0%
Taxable income for FIT	2,375.4	2,786.2	410.8	17.3%
FIT Rate	34.00%	34.00%		
FIT	807.6	947.3	139.7	17.3%
Investment Tax Credit	(6.4)	(6.4)	0.0	-0.8%
Net Federal Income Tax	801.2	940.9	139.7	17.4%
Total FIT & CCFT	1,794.9	2,108.9	314.0	17.5%

## **CHAPTER 7: CONSERVATION**

### **A. INTRODUCTION**

This Chapter discusses DRA's analysis and recommendations regarding PWC's conservation program.

### **B. SUMMARY OF RECOMMENDATIONS**

DRA recommends that PWC's conservation estimates be accepted. However, DRA also recommends that in future rate cases, PWC include a cost/benefit analysis for the elements of their conservation program.

### **C. DISCUSSION**

On December 15, 2005 the Commission released the "Water Action Plan". Part of this plan supports water conservation, as cost-effective water conservation is the least expensive source of water. The Commission stated that it would allow for the reasonable recovery of incurred costs to implement conservation programs. PWC has a developed conservation program in place.

#### **1) CONSERVATION PROGRAMS**

PWC's conservation expenses are combined with the expenses for Consumer Confidence Reports in a miscellaneous fund, account number 7717.9302 in their detailed expenses worksheet. Upon request, PWC provided a breakdown of their historical conservation expenses. The estimated expenses for conservation total \$21,584 for Test Year 2007. In Escalation Years 2008 and 2009, the estimated expenses for conservation total \$22,020 and \$22,447, respectively. These estimates are based upon a five-year average of historical expenses. PWC also provided its 2005 Urban Water Management Plan (UWMP). The UWMP states that while PWC is not a signatory to the Memorandum of Understanding (MOU) regarding Best Management Practice's (BMP), Central Basin Municipal Water District (CBMWD) is a signatory. PWC complies with all of the 14 urban water conservation BMPs. CBMWD implements many of the

1 BMPs on behalf of its member agencies, including PWC. PWC also coordinates  
2 its activities with established conservation organizations and programs. PWC  
3 currently implements the following BMPs:

4 *1. Water Survey Programs for Single-Family Residential and Multi-Family*  
5 *Residential Customers*

6 PWC has offered free residential water use surveys to single-family and multi-  
7 family customers and will continue to do so. As part of the surveys, customers are  
8 instructed on water conservation. PWC can receive funding through the  
9 Metropolitan Water District of Southern California (MWD) for residential survey  
10 devices. These surveys have resulted in 4 Acre Feet per Year (ACY) of water  
11 savings between 2000 and 2005, and is estimated to result in 2 ACY of water  
12 savings between 2006 and 2010.

13 *2. Residential Plumbing Retrofits*

14 PWC participates in the distribution of showerheads, aerators, and toilet tank leak  
15 detection tablets at community events. The distribution of these retrofit devices  
16 has resulted in 6.3 ACY of water savings between 2000 and 2005, and is estimated  
17 to result in an additional 5.5 ACY of water savings between 2006 and 2010.

18 *3. System Water Audits, Leak Detectors, and Repair*

19 PWC has maintained regular surveillance of the water system to detect leaks as  
20 part of its on-going operations. PWC monitors and replaces leaky mains, monitors  
21 and replaces meters, and operates and inspects valves every two years. The  
22 effectiveness of these measures is shown by low unaccounted-for-water losses.

23 *4. Metering with Commodity rates for all New Connections and Retrofit of*  
24 *Existing Connections*

25 All PWC customer sectors within PWC's service area have been fully metered  
26 since 1950, with the amount of a customer's bill being based on a monthly service  
27 charge and a commodity charge based on the quantity of water used. Metering  
28 allows conservation of 20 to 30 percent water demand overall.

1       5. *Large Landscape Conservation Programs and Incentives*

2       PWC works in partnership with CBMWD, as well as local nurseries, landscape  
3       designers, and contractors to help educate landowners in regards to water efficient  
4       landscapes. PWC offers audits to its large landscape customers. CBMWD is  
5       currently implementing three irrigation control programs, which are estimated to  
6       save 19 to 35 percent of total irrigation water demand.

7       6. *High-Efficiency Washing Machine Rebate Programs*

8       CBMWD provided an incentive of \$100 for washers with a 6.0 Water Factor or  
9       less through December 2005 to residents in its service area, and plans to continue  
10      the program for several more years. PWC customers have participated in this  
11      rebate program throughout its service area for single family residences. The water  
12      savings average 85 to 109 gallons per week per machine.

13      7. *Public Information Programs*

14      PWC distributes public information through bill inserts, brochures, community  
15      speakers, and special events every year. Pamphlets on water conservation are  
16      available in the lobby of the office where customers can pay their bills.  
17      Consumption information for the same month of the previous year is provided on  
18      the customer's bill. Park also provides water conservation information on their  
19      website.

20      8. *School Education Programs*

21      PWC works with local school districts to promote water conservation and  
22      conservation education for students.

23      9. *Conservation Programs for Commercial, industrial, and Institutional (CII)*  
24      *Accounts*

25      CBMWD offers CII rebates to its member agencies, including PWC. Rebates are  
26      offered for commercial clothes washers, waterbrooms, cooling tower conductivity  
27      controllers, pre-rinse spray nozzles, x-ray machine recirculating devices and dual  
28      flush toilets and waterless urinals. CBMWD provides pre-rinse spray valves to  
29      customers within its member agencies service areas, and implements a Waterfree

1 Urinal Rebate Program. The CII Rebate Program provides a total of 17.8%-20.3%  
2 median and 17.9%-29.2% mean in savings. The Waterfree Urinal provides 8.8-  
3 131.3 gallons per flush total water savings.

#### 4 *10. Wholesale Agency Assistance Program*

5 CBMWD provides conservation-related technical support and information to its  
6 member agencies, including ULFT replacement, system audits, washing machines,  
7 public information, school education, wholesaler incentives, residential retrofits,  
8 CII rebates and surveys, residential and large turf irrigation, and conservation-  
9 related rates and pricing.

#### 10 *11. Conservation Pricing*

11 PWC has eliminated non-conserving pricing structures, in accordance with current  
12 Commission rate design policy. CBMWD helps prevent member agencies,  
13 including PWC, from exceeding their Tier 1 allocation limits by conservation,  
14 education, and the development of recycled water use.

#### 15 *12. Conservation Coordinator*

16 PWC began employing a part-time water conservation/recycling coordinator, in  
17 1991, who is responsible for is responsible for various water conservation and  
18 recycling activities, evaluates the effectiveness of the BMPs, and recommends  
19 program improvements.

#### 20 *13. Water Waste Prohibition*

21 PWC's tariffs include Rule No. 20 which discourages the wasteful use of water  
22 and promotes the use of water saving devices. PWC also has Rule No. 11.B(3)  
23 which prohibits the wasting of water. PWC notifies the cities in which it serves of  
24 any chronic water wasters.

#### 25 *14. Residential ULFT Replacement Programs*

26 PWC and its customers participate in the MWD and CBMWD Ultra-Low Flush  
27 Toilet (ULFT) Replacement Program, which includes free one-day toilet  
28 distributions and rebates based on available funding. CBMWD partners with its  
29 member agencies to offer a \$50 rebate for purchase and installation of ULFTs and

1 a \$70 rebate for the purchase and installation of dual-flush toilets. The  
2 replacement program has resulted in 640 Acre Feet (AF) of water savings for  
3 between 2000 and 2004, and the rebate program has resulted in 95AF of water  
4 savings for between 2000 and 2004.

5  
6 PWC already has all of these programs in place and has been implementing them,  
7 along with methods in place to evaluate their effectiveness. The expenses  
8 associated with conservation are based upon a five-year historical average of  
9 conservation expenses. The programs are supported by reduced AF of water  
10 consumed and an acceptable amount of unaccounted-for-water.

## 11 **2) WATER LOSS (UNACCOUNTED-FOR-WATER)**

12 It appears that PWC does not have a significant water loss problem because  
13 unaccounted for water has been estimated at an average of 1.3% during the past  
14 five years and is estimated to be 2% going forward. This is well within the  
15 generally accepted industry standard of 10%.

## 16 **D. CONCLUSION**

17 DRA recommends that the costs associated with PWC's conservation  
18 program be accepted. The conservation program promotes conservation, is  
19 already an established program and has evaluation methods in place, provides  
20 water savings, results in an acceptable amount of unaccounted-for-water, and the  
21 costs associated with conservation are supported because they are based upon a  
22 five-year historical average. This is in line with the Commissions "Water Action  
23 Plan". However, DRA also recommends that in future rate cases, PWC provide a  
24 detailed cost/benefit analysis to further support the conservation costs.

## **CHAPTER 8: UTILITY PLANT IN SERVICE**

### **A. INTRODUCTION**

DRA's and PWC's estimates for Utility Plant in Service for Test Year 2007 and Second Test Year 2008 are shown in Tables 8-1 and 8-2 at the end of this chapter.

DRA reviewed and analyzed PWC's testimony, application, work papers, capital project details, estimating methods, and responses to various DRA data requests. DRA also conducted a field investigation of selected major proposed specific plant additions before making its own independent estimates including adjustments where appropriate. Important and significant differences between DRA's and PWC's estimates of specific plant additions are attributed to the items tabulated below.

### **B. SUMMARY OF RECOMMENDATIONS**

DRA concurs with PWC's estimates on the majority of the utility plant additions scheduled for completion in 2006, 2007, and 2008, including the new well and other upgrades proposed to meet the provisions in the California Code of Regulations, Section 4503 – Suspension of Deliveries (b) which states:

“Each member agency shall have sufficient resources such as local reservoir storage, groundwater production capacity, system interconnections or alternate supply source to sustain a seven-day interruption in Metropolitan deliveries based on annual average demand.”

PWC has performed neither any study nor analysis of any cost benefits or other related savings associated with the Graphical Information System (GIS) project nor identified any service problems or health violations that would be corrected through the implementation of the GIS project. On that basis, DRA believes that the GIS project is unneeded and would recommend that PWC continue to operate as it does presently, which DRA has found satisfactory, based upon low customer complaints and a very good record on loss of water.

Therefore, DRA recommends that PWC's request of \$393,000 for the GIS project be disallowed.

## C. DISCUSSION

### 1) Water Main Installations

There are three water main installation projects scheduled for completion in 2006:

#### *(1) 120<sup>th</sup> Street from east of Compton Creek to Central Avenue*

PWC requests \$231,000 to install 950 feet of 12-inch diameter transmission pipeline on 120<sup>th</sup> Street from east of Compton Creek, crossing Compton Creek on a suspended bridge, and then proceeding along 120<sup>th</sup> Street to Central Avenue to the Compton West Water System.

#### *(2) Central Avenue from 119<sup>th</sup> Street to 118<sup>th</sup> Street*

PWC requests \$251,000 to install 1,510 feet of 12-inch transmission pipeline on Central Avenue from 119<sup>th</sup> Street to 118<sup>th</sup> Street in the Compton West Water Sysytem.

#### *(3) Williams Avenue from San Vicente Street to Compton Boulevard Alley east of Atlantic from San Luis Street to Lime Avenue*

PWC request \$227,000 to install 1,585 feet of water main ranging from 4-inch to 12-inch in diameter along Williams Avenue from San Vicente Street to Compton Boulevard and on the Alley east of Atlantic from San Luis Street to Lime Avenue in the Compton East Water System.

There are two water main installation projects scheduled to begin construction in 2007:

#### *(1) Harris Avenue from McMillan Street to Rosecrans Avenue and Rosecrans Avenue from Harris Avenue to Thorsen Avenue*

PWC requests \$456,000 to install 1,540 feet of transmission water main ranging from 8-inch to 12-inch diameter. The pipeline will be installed along Harris Avenue from McMillan Street to Rosecrans Avenue and along Rosecrans Avenue from Harris Avenue to Thorsen Avenue in the Compton East Water System.

(2) Harris Avenue from Compton Boulevard to San Vicente Street and San Vicente Street from Harris Avenue to Butler Avenue

PWC requests \$62,000 to install 1,350 feet of 12-inch transmission pipeline on Harris Avenue from Compton Boulevard to San Vicente Street and on San Vicente Street from Harris Avenue to Butler Avenue.

There are three major water main installation projects scheduled for completion in 2008:

(1) Harris Avenue from Compton Boulevard to San Vicente Street and San Vicente Street from Harris Avenue to Butler Avenue

PWC requests \$224,000 to install 1,350 feet of 12-inch transmission pipeline on Harris Avenue from Compton Boulevard to San Vicente Street and on San Vicente Street from Harris Avenue to Butler Avenue.

(2) Harris Avenue from Myrhh Street to Alondra Boulevard; Myrhh Street from Harris to Butler Avenue; Linsley Street from Harris Avenue to west of Butler Avenue; and ALondra Boulevard from Harris Avenue to Butler Avenue

PWC requests \$408,000 to install 1,730 feet of transmission water main ranging from 8-inch to 12-inch diameter on Harris Avenue from Myrhh Street to Alondra Boulevard; Myrhh Street from Harris to Butler Avenue; Linsley Street from Harris Avenue to west of Butler Avenue; and ALondra Boulevard from Harris Avenue to Butler Avenue in the Compton East Water System.

(3) Stoneacre Avenue from Queensdale Street to McMillan Street and Addington Street from Castlegate Avenue to Butler Avenue

PWC requests \$147,000 to install 825 feet of water main ranging from 6-inch to 8-inch diameter along Stoneacre Avenue from Queensdale Street to McMillan Street and along Addington Street from Castlegate Avenue to Butler Avenue in the Compton East Water System.

PWC has adequately justified its need for replacing certain mains based on elimination of leaks, improved fire flow, and circulation through interconnections. Accordingly, DRA concurs with PWC's estimates for the water main installation projects described above and scheduled for completion in 2006, 2007, and 2008.

**2) Water System Sample Stations Replacements**

PWC has budgeted \$10,000 to replace 6 sample stations in 2006; \$10,000 to replace 6 sample stations in 2007; and \$12,000 to replace 7 sample stations in 2008. DRA found PWC's request reasonable and concurs with PWC's estimates.

**3) Water System Fire Hydrants**

PWC estimated \$54,000 to replace 12 fire hydrants in 2006; \$56,000 to replace 12 fire hydrants in 2007; and \$58,000 to replace 12 fire hydrants in 2008. Based upon historical data, PWC has been installing or replacing new fire hydrants at a rate of 12 per year at an average cost of \$4,521 each. DRA reviewed PWC's historical costs associated with the fire hydrant replacement program and found PWC's request reasonable and concurs with PWC's estimates.

**4) Water System Valves**

PWC has budgeted \$157,000 to replace 52 valves in 2006; \$174,000 to replace 56 valves in 2007; and \$138,000 to replace 43 valves in 2008. DRA reviewed PWC's historical data and found PWC's request reasonable and concurs with PWC's estimates.

**5) Water System Blow-offs**

PWC has budgeted \$10,000 to replace 10 blow-offs in 2006; \$10,000 to replace 10 blow-offs in 2007; and \$11,000 to replace 10 blow-offs in 2008. DRA found PWC's request reasonable and concurs with PWC's estimates.

**6) Geographical Information System (GIS) Project**

PWC requests to continue to implement its Geographical Information System (GIS) project that began in 2005. GIS is a tool that is in use by various organizations for over 30

years to map, analyze, and inventory components. GIS has matured over the years and has allowed many organizations to make better internal decisions and provide better service to their customers.

PWC's goals in the implementation of GIS is to streamline existing work flows, manage infrastructure data, add new analysis capabilities and provide improved emergency response and customer service. PWC's major benefit of the GIS project will be to improve employee efficiency and enhance the ability to manage their water system. The water service customers will also realize the results of these improvements through enhanced service and reliability.

PWC has budgeted \$112,000 to purchase a server with applicable software (\$37,000), implement and test some preliminary applications (\$60,000), and host vendor provided training for select staff to operate the system (\$15,000) in 2006; 197,000 to develop detailed applications to find and organize data (\$180,000) and deployment of these applications to various work stations (\$17,000) in 2007; 30,000 to complete the development of detailed applications to find and organize data (\$25,000) and deploying these applications to various work stations (\$5,000) in 2008. The total requested for this project in the two test years for plant additions is \$393,000.

PWC has performed neither any study nor analysis of any cost benefits or other related savings associated with the GIS project nor identified any service problems or health violations that would be corrected through the implementation of the GIS project. On that basis, DRA believes that the GIS project is unneeded and would recommend that PWC continue to operate as it does presently, which DRA has found satisfactory, based upon low customer complaints and a very good record on loss of water.

Therefore, DRA recommends that the costs associated with the GIS project be disallowed.

**7) New Water Service**

PWC estimated \$36,000 to install 26 new services in 2006; \$37,000 to install 26 new services in 2007; and \$38,000 to install 26 new services in 2008. Based upon PWC's historical average of 26 new services per year at an average cost of \$1,395 each, DRA found PWC's request reasonable and concurs with PWC's estimates.

**8) Replacement Water Service**

PWC has budgeted \$104,000 to replace 60 services in 2006; \$107,000 to replace 60 services in 2007; and \$111,000 to replace 60 services in 2008. Based upon PWC's historical average of 60 service replacements per year at an average cost of \$1,737 each, DRA found PWC's request reasonable and concurs with PWC's estimates.

**9) Large Service Replacement**

PWC has budgeted \$114,000 to replace 6 large services in 2006; \$117,000 to replace 6 large services in 2007; and \$121,000 to replace 6 large services in 2008. PWC has 95 large services located in underground vaults servicing hospitals, apartment buildings and other businesses. Approximately 48 of these large services were installed 30–50 years ago. Typically these large services were installed in underground vaults without the benefit of a bypass service. Due to the large capital outlay, PWC is proposing to spread this replacement program out over the next 8 years at an estimated average replacement cost of \$19,000 for each large service. DRA found PWC's request reasonable and concurs with PWC's estimates.

**10) Automated Meter Reading (AMR) Project**

PWC has budgeted \$250,000 to replace 1,845 meters in 2006; \$250,000 to replace 1,757 meters in 2007; and \$250,000 to replace 1,673 meters in 2008. PWC is proposing to continue its existing AMR installation program. In 2004, PWC started the process of converting all of the small meters (2-inch and smaller) to this AMR installation program. Due to the large capital outlays for this conversion, PWC has spread out this program over 16 years. DRA found PWC's request reasonable and concurs with PWC's estimates.

DRA consulted with PWC staff to determine that the average salary for a meter reader is \$45,000. DRA has adjusted customer expenses by the amount of \$45,000 in Test Year 2007 since the continued implementation of the AMR installation program will result in less PWC staff to read meters, lower errors in reading meters, and higher efficiency in billing customers.

#### **11) Small Meter Replacements**

PWC has budgeted \$20,000 to replace small meters in 2006; \$21,000 in 2007; and \$22,000 in 2008. Due to the extended AMR installation program time frame, PWC will still need to change out small meters (2-inch and smaller). Commission rules on meter aging require the small meters to be tested every 15 years. PWC changes out these meters in lieu of testing. PWC's schedule is to change out 5/8" and 1" meters every 15 years and 1-1/2" and 2" meters every 10 years. DRA found PWC's request reasonable and concurs with PWC's estimates.

#### **12) Large Meter Replacements**

PWC has budgeted \$30,000 to replace 6 large meters in 2006; \$31,000 to replace 6 large meters in 2007; and \$32,000 to replace 6 large meters in 2008. . PWC has 95 large meters located in underground vaults servicing hospitals, apartment buildings and other businesses. Approximately 48 of these large meters were installed 30–50 years ago. PWC is proposing to spread this replacement program out over the next 8 years at an estimated average replacement cost of \$5,000 for each large meter. DRA found PWC's request reasonable and concurs with PWC's estimates.

#### **13) Supervisory Control and Data Acquisition (SCADA) Project**

PWC is proposing to change the existing communication system that uses ADN multi-drop circuits (56K digital lines). These are an older style of dedicated phone line circuits that are prone to communications failures. Several times a month at least one segment of the circuit loses communication and the frequency increases during the rainy periods. When a communication failure occurs PWC loses the capability to monitor and

control remotely their facilities. The existing communication system is a troublesome weakness in the SCADA system. PWC advised DRA staff via e-mail of the \$22,572 savings associated with the SCADA System's telephone lines, which are booked to Expense Account Number 7011.2- Telemetry (Office Supplies).

PWC proposes to install a combination of Ethernet frame relay phone lines and Ethernet broadband radios. This upgrade will increase the reliability of the SCADA system and will accommodate the installation of a video security system at PWC's facilities.

PWC has budgeted \$237,000 to upgrade the communication system including the installation of Ethernet programmable logic controllers, switches, radios, and wiring (\$147,000), conduct a radio feasibility study (\$10,000), install 12 antennas (\$48,000), install remote cameras at 4 sites (\$24,000), and replace various parts of the existing SCADA system to accommodate the new communication system (\$8,000) in 2006; \$98,000 to install new software called iHistorian (\$22,000), install remote video cameras at 10 sites (\$62,000), install a camera viewing application at their main office (\$6,000), and various replacement parts (\$8,000) in 2007; \$50,000 to install remote video cameras at 6 sites (\$38,000), and also install replacement parts at their sites (\$12,000) in 2008. The total cost of the SCADA project is \$385,000.

DRA found PWC's request reasonable and concurs with PWC's estimates.

#### **14) Well Rehabilitation**

PWC's Compton West Water System has 2 purchase water connections (CenB-50 and CenB-9) and 3 groundwater wells (Well 12-B, Well 13-C, Well 13-B) to provide water to their customers. In 2005, Well 13-C tested positive for Trichloroethylene at a level that exceeded the maximum contaminant level. Well 13-B was not being utilized on a regular basis because it hydraulically fought the capacity of Well 13-C. PWC wants to replace the water produced from Well 13-C with water produced from Well 13-B. To accomplish this task, PWC must replace the source of supply, clean the well, install new piping at the site, install new pumping equipment, hydraulically redevelop the well, and install a sound-proof pump house since the well is located within a residential neighborhood.

PWC has budgeted \$292,000 to rehabilitate the well (\$100,000 – capital portion), purchase new pump equipment (\$25,000), sound-proof well pump house (\$95,000), purchase chlorination equipment (\$62,000), and install a new chlorination equipment building (\$10,000) in 2006.

PWC's Compton East Water System has 1 purchase water connection (CenB-25) and 2 groundwater wells (Well 14-B – Active, Well 9-D – Inactive due to exceeding mcls from manganese and arsenic) to provide water to their customers. In 2004, Well 14-B pumped 143 acre-foot of water. Well 14-B was drilled back in 1951 and rehabilitated in 2000. Since this well is the main back-up supply of water for this system, PWC requests to rehabilitate this well again based upon their consultant's report that found a 48% decline in production at Well 14-B. To accomplish this task, PWC must clean the well, install new piping at the site, install new pumping equipment, hydraulically redevelop the well, and install a sound-proof pump house since the well is located within a residential neighborhood.

PWC has budgeted \$328,000 to rehabilitate the well (\$103,000 – capital portion), purchase new pump equipment (\$26,000), sound-proof well pump house (\$98,000), new site security fencing (\$27,000), purchase chlorination equipment (\$64,000), and install a new chlorination equipment building (\$10,000) in 2007.

PWC 's Bellflower/Norwalk Water System has 3 purchase water connections (CenB-53, CenB-26, and CenB-27) and 8 groundwater wells (Wells 28-B, 40-D, 41-A, and 46-C – Active ; Well 40-B – Inactive due to sanding and iron issues; and Wells 6-E, 29-H, and 29-K – Inactive due to exceeding the mcls for volatile organic compounds) to provide water to their customers. PWC has completed the rehabilitation of the 4 active wells in this water system. Three of the active wells are on the east side of the San Gabriel River and one is on the west side of the San Gabriel River. For operational functionality, PWC request Well 40-B to be rehabilitated to provide an additional active well source on the west side of the San Gabriel River. To accomplish this task, PWC must clean the well, install new piping at the

site, install new pumping equipment, hydraulically redevelop the well, and install a sound-proof pump house since the well is located within a residential neighborhood.

PWC has budgeted \$315,000 to rehabilitate the well (\$106,000 – capital portion), piping improvements (\$15,000), purchase new pump equipment (\$27,000), sound-proof well pump house (\$101,000), and purchase chlorination equipment (\$66,000) in 2008.

DRA found PWC's request reasonable and concurs with PWC's estimates for the well rehabilitation projects scheduled for completion in 2006, 2007, and 2008.

### **15) Groundwater Well Installation Project**

PWC has lost the production of potable water from 2 active wells in the last 4 years. Well 6-G in the Bellflower/Norwalk water system had a casing failure and had to be abandoned and Well 13-C in the Compton West Water System has a contamination issue. PWC wells were constructed from 1948 – 1956 except for 1. Based upon PWC's experience with existing wells and their consultant's report, PWC believes it is prudent to install new ground water wells.

PWC evaluated the Compton East Water System and does not believe they have an adequate source of back-up water supply. Central Basin Municipal Water District mandates that all permitted water systems have a back-up source of supply for their water systems. The Compton East Water System has Well 4-B (pumping capacity 644 gpm), Well 9-D – Inactive source due to manganese and arsenic concentration that exceed the mcls, and 1 purchased water connection. The average daily demand for this system is 1,462 gpm and the maximum demand is 2,924 gpm. In the event that PWC lost their purchase water connection due to a calamity or due to extended maintenance, PWC would be unable to provide adequate water to their customers.

PWC has budgeted \$50,000 to begin the preliminary engineering study and environmental process in 2006; \$659,000 to drill the new well that will be approximately 1,100 feet below ground level on an existing well site that PWC owns in 2007; \$761,000 to install the pumping and control facility (\$492,00), chlorination facility (\$66,000),

chlorination building (\$11,000), piping improvements (\$63,000), security fencing (\$28,000), and install a sound-proof pump house (\$101,000) to protect the equipment in 2008. The total cost of the new well is \$1,470,000.

DRA concurs with PWC's estimates to install a new well to meet the provisions in the California Code of Regulations, Section 4503 – Suspension of Deliveries (b) which states:

“Each member agency shall have sufficient resources such as local reservoir storage, groundwater production capacity, system interconnections or alternate supply source to sustain a seven-day interruption in Metropolitan deliveries based on annual average demand.”

DRA found PWC's request reasonable and concurs with PWC's estimates for the groundwater well installation projects scheduled for completion in 2006, 2007, and 2008.

#### **16) Office Furniture and Equipment Replacements**

PWC has budgeted \$17,000 to replace desks, chairs, etc. in 2006; \$15,000 to replace desks, chairs, etc. in 2007; and \$15,000 to replace desks, chairs, etc. in 2008. DRA found PWC's request reasonable and concurs with PWC's estimates.

#### **17) Vehicle Replacements**

PWC has budgeted \$55,000 to replace 2 vehicles in 2006; \$57,000 to replace 2 vehicles in 2007; and \$58,000 to replace 2 vehicles in 2008. DRA found PWC's request reasonable and concurs with PWC's estimates.

#### **18) Tool and Power Equipment Replacements**

PWC has budgeted \$27,000 to replace jackhammers, clay spades, jacks, compressors, etc. in 2006; \$10,000 in 2007; and \$10,000 in 2008. DRA found PWC's request reasonable and concurs with PWC's estimates.

### **19) Communication Equipment Replacements**

PWC has budgeted \$4,000 to replace cellular phones, digital radios, etc. in 2006; \$4,000 in 2007; and \$4,000 in 2008. DRA found PWC's request reasonable and concurs with PWC's estimates.

### **20) Video Camera Replacements**

PWC has budgeted \$7,000 to purchase 2 cameras in 2006; \$9,000 to purchase 2 cameras and install 1 mounting post in 2007; and \$4,000 to purchase 1 camera in 2008. DRA found PWC's request reasonable and concurs with PWC's estimates.

### **21) Building and Grounds Lighting Improvement Project**

PWC has budgeted \$10,000 to install new security lighting in 2006; \$5,000 to replace and install water heaters, locksets, timers, cabinets, etc. in 2007; and \$15,000 in 2008. DRA found PWC's request reasonable and concurs with PWC's estimates.

### **22) Air Conditioner Replacement Project**

PWC has budgeted \$25,000 to replace a single roof mounted 15-ton heat pump. The unit was installed back in 1995 and is currently experiencing part failures due to corrosion and wear. DRA found PWC's request reasonable and concurs with PWC's estimates.

### **23) Teletrac Replacement Project**

PWC utilizes Teletrac to monitor the location of all their service vehicles. PWC has budgeted \$30,000 to upgrade their receiver units in each truck in order to receive their service in 2006. DRA found PWC's request reasonable and concurs with PWC's estimates.

### **24) Mobile Field Computing Project**

PWC has budgeted \$13,000 to provide computer controlled technology to field crews to facility operation and maintenance data collection and retrieval, etc. in 2006; \$36,000 in 2007; and \$26,000 in 2008. DRA found PWC's request reasonable and concurs with PWC's estimates.

## **25) Computer and Software Replacements**

PWC has budgeted \$55,000 to replace 13 desktop computers, 2 field case laptops, 4 laser printers, 2 inkjet printers, and upgrade 48 software packages in 2006; \$64,000 to replace 13 desktop computers, 1 laptop, 1 field case laptop, 2 servers, 2 laser printers, 1 inkjet printers, and upgrade 48 software packages in 2007; and \$49,000 to replace 7 desktop computers, 3 field case laptops, 1 server, 2 inkjet printers, and upgrade 48 software packages in 2008. PWC's computers are replaced on a 3 or 5 year replacement schedule based on technical and software needs. DRA found PWC's request reasonable and concurs with PWC's estimates.

## **26) Cost of Removals**

PWC has budgeted \$16,000 to remove galvanized and plastic service lines and other various equipment, water mains, and other miscellaneous items that have reached the end of their useful life and are no longer functional in 2006; \$16,000 in 2007; and \$16,000 in 2008. DRA found PWC's request reasonable and concurs with PWC's estimates.

## **27) Concrete Slab Installation**

PWC has budgeted \$60,000 to install a 3,200 square foot graded concrete slab under their record bins. Per CPUC and other agency regulations, PWC is required to hold onto many records that are stored in several large shipping containers (bins). These bins were installed on bare non-graded ground which has allowed water to collect and animals to live. PWC is concerned about the potential corrosion of the bottoms of the bins that could damage the integrity of their records. DRA found PWC's request reasonable and concurs with PWC's estimates.

TABLE 8-1

## PARK WATER CO.-CENTRAL BASIN DIV.

## PLANT IN SERVICE

TEST YEAR 2007

Item	DRA	PARK	PARK exceeds DRA	
			Amount	%
(Thousands of \$)				
Plant in Service - BOY	44,518.6	44,558.6	40.0	0.1%
Gross Additions	2,214.6	2,577.6	363.0	16.4%
Retirements	(212.1)	(212.1)	0.0	0.0%
Net Additions	2,002.5	2,365.5	363.0	18.1%
Plant in Service - EOY	46,521.2	46,924.2	403.0	0.9%
Weighting Factor	50.00%	50.00%		
Wtd. Avg. Plant in Service	45,519.9	45,741.4	221.5	0.5%

TABLE 8-2

PARK WATER CO.-CENTRAL BASIN DIV.

PLANT IN SERVICE

SECOND TEST YEAR 2008

Item	DRA	PARK	PARK exceeds DRA	
			Amount	%
(Thousands of \$)				
Plant in Service - BOY	46,521.2	46,924.2	403.0	0.9%
Gross Additions	3,947.6	3,977.6	30.0	0.8%
Retirements	<u>(174.7)</u>	<u>(174.7)</u>	<u>0.0</u>	<u>0.0%</u>
Net Additions	3,773.0	3,803.0	30.0	0.8%
Plant in Service - EOY	50,294.1	50,727.1	433.0	0.9%
Weighting Factor	50.00%	50.00%		
Wtd. Avg. Plant in Service	48,407.6	48,825.6	418.0	0.9%

## **CHAPTER 9: DEPRECIATION EXPENSE AND RESERVE**

### **A. INTRODUCTION**

This chapter presents DRA's analyses and recommendation on depreciation. Tables 9-1 and 9-2 show weighted average accumulated depreciation and amortization for test year 2007 and escalation year 2008.

### **B. SUMMARY OF RECOMMENDATIONS**

Differences in DRA's and PWC's estimates are the result of different plant additions and advances used for the test year. These differences are discussed in Chapter 8, Utility Plant in Service.

### **C. DISCUSSION**

PWC derived the composite rates from a straight-line remaining life curve using balances for this case consistent with standard practice U-4. Differences are the result of different Plant estimates.

### **D. CONCLUSION**

DRA reviewed and accepted PWC's methodology for developing the depreciation expense for the Test Year.

TABLE 9-1  
PARK WATER CO.-CENTRAL BASIN DIV.  
DEPRECIATION RESERVE & EXPENSE  
TEST YEAR 2007

Item	DRA	PARK	PARK exceeds DRA	
			Amount	%
(Thousands of \$)				
Depreciation Reserve - BOY	14,529.0	14,533.2	4.2	0.0%
Accruals				
Clearing				
Accounts	95.0	95.0	0.0	0.0%
Contribution	115.4	115.4	0.0	0.0%
Depreciation Expense	1,104.4	1,142.1	37.7	3.4%
Other	0.0	0.0	0.0	0.0%
Total Accruals	1,314.8	1,352.5	37.7	2.9%
Retirements	(212.6)	(212.6)	0.0	0.0%
Depreciation Reserve - EOY	15,631.2	15,673.1	41.9	0.3%
Weighting Factor	50.00%	50.00%		
Wtd. Avg. Depr. Reserve	15,080.1	15,103.1	23.0	0.2%
Gen'l Office Depreciation Exp	273.1	273.1	0.0	0.0%
Common Plant Depr Exp Alloc	(46.5)	(46.5)	0.0	0.0%

TABLE 9-2  
PARK WATER CO.-CENTRAL BASIN DIV.  
DEPRECIATION RESERVE & EXPENSE  
ESCALATION YEAR 2008

Item	DRA	PARK	PARK exceeds DRA	
			Amount	%
(Thousands of \$)				
Depreciation Reserve - BOY	15,631.2	15,673.1	41.9	0.3%
Accruals				
Clearing				
Accounts	96.8	96.8	0.0	0.0%
Contribution	118.5	118.5	0.0	0.0%
Depreciation Expense	1,210.9	1,251.8	40.8	3.4%
Other	0.0	0.0	0.0	0.0%
Total Accruals	1,426.2	1,467.0	40.8	2.9%
Retirements	(178.8)	(178.8)	0.0	0.0%
Depreciation Reserve - EOY	16,878.6	16,961.2	82.6	0.5%
Weighting Factor	50.00%	50.00%		
Wtd. Avg. Depr. Reserve	16,254.9	16,317.2	62.3	0.4%
Main Office Depreciation Exp	288.3	288.3	0.0	0.0%
Common Plant Depr Exp Alloc	(46.8)	(46.8)	0.0	0.0%

## **CHAPTER 10: RATE BASE**

### **A. INTRODUCTION**

This chapter sets forth the DRA analyses and recommendations regarding rate base. Tables 10-1 and 10-2 compare DRA's and PWC's estimates. Differences are due to different estimates of plant additions and advances for construction and depreciation (discussed in chapters 8 and 9).

### **B. SUMMARY OF RECOMMENDATIONS**

DRA recommends a weighted average rate base of \$24.527 million for test year 2007. DRA's estimate is lower by \$198.00 thousand or 0.8% when compared to PWC's request of \$24.725 million. Tables 10-1 and 10-2 at the end of this chapter provide a summary of DRA's weighted average rate base and depreciated rate base.

### **C. DISCUSSION**

#### **1) Material and Supplies**

DRA accepts PWC's test year estimate of \$131,600 for Materials and Supplies.

#### **2) Working Cash**

DRA and PWC estimated working cash in accordance with Standard Practice U – 16. The differences result from different expense estimates. However, DRA notes that it does not agree with U-16's inclusion of depreciation expenses when developing the working cash allowance for water utilities, but acknowledges that water utilities must follow U-16 unless it is changed by the Commission. DRA expects to pursue this change by requesting a formal review of U-16 in the appropriate Commission forum.

TABLE 10-1  
PARK WATER CO.-CENTRAL BASIN DIV.  
WEIGHTED AVERAGE DEPRECIATED RATE BASE  
TEST YEAR 2007

Item	PARK			
	DRA	PARK	exceeds DRA	
			Amount	%
	(Thousands of \$)			
Wtd.Avg. Plant in Serv.	45,519.9	45,741.4	221.5	0.5%
Common Plant Adjust.	(2,082.6)	(2,082.6)		
Work in Progress	531.50	531.5	0.0	0.0%
Materials & Supplies	131.6	131.6	0.0	0.0%
Working Cash - Lead-Lag	763.5	763.5	0.0	0.0%
Working Cash Fixed Portion				
CB	217.5	217.5	0.0	0.0%
General Office	88.6	88.6	0.0	0.0%
Wtd. Avg. Depr. Res.	(15,080.1)	(15,103.1)	(23.0)	0.2%
Common Plant Adjust.	517.0	517.0		
Advances	(1,831.6)	(1,831.6)	0.0	0.0%
Contributions	(2,204.3)	(2,204.3)	0.0	0.0%
Unamortized ITC	(96.2)	(96.2)	0.0	0.0%
Deferred Income Taxes	(3,168.9)	(3,168.9)	0.0	0.0%
Method 5 Adjustment	27.8	27.8	0.0	0.0%
Main Office Allocation	1,193.2	1,193.2	0.0	0.0%
<hr/>				
Average Rate Base	24,526.8	24,725.2	198.5	0.8%
Interest Calculation:				
Avg Rate Base	24,526.8	24,725.2	198.5	0.8%
x Weighted Cost of Debt	3.64%	3.64%	0.00%	0%
<hr/>				
Interest Expense	892.8	900.0	7.2	0.8%
less Cap. Interest	0.0	0.0	0.0	0.0%
Net Interest Expense	892.8	900.0	7.2	0.8%

TABLE 10-2  
PARK WATER CO.-CENTRAL BASIN DIV.  
WEIGHTED AVERAGE DEPRECIATED RATE BASE  
ESCALATION YEAR 2008

Item	DRA (Thousands of \$)	PARK	PARK exceeds DRA	
			Amount	%
Wtd.Avg. Plant in Service	48,407.6	48,825.6	418.0	0.9%
Common Plant Adjust.	(2,110.5)	(2,110.5)		
Work in Progress	404.5	404.5	0.0	0.0%
Material & Supplies	135.5	135.5	0.0	0.0%
Working Cash - Lead-Lag	797.4	797.4	0.0	0.0%
Working Cash Fixed Portion				
CB	160.9	160.9	0.0	0.0%
General Office	78.0	78.0	0.0	0.0%
Wtd. Avg. Depr. Reserve	(16,254.9)	(16,317.2)	(62.3)	0.4%
Common Plant Adjust.	561.0	561.0		
Advances	(1,932.1)	(1,932.1)	0.0	0.0%
Contributions	(2,198.9)	(2,198.9)	0.0	0.0%
Unamortized ITC	(89.2)	(89.2)	0.0	0.0%
Deferred Income Taxes	(3,272.4)	(3,272.4)	0.0	0.0%
Method 5 Adjustment	23.6	23.6	0.0	0.0%
Main Office Allocation	1055.3	1055.3	0.0	0.0%
<hr/>				
Average Rate Base	25,765.7	26,121.4	355.7	1.4%
Interest Calculation:				
Avg Rate Base	25,765.7	26,121.4	355.7	1.4%
x Weighted Cost of Debt	3.64%	3.64%	0.00%	0.0%
<hr/>				
Interest Expense	937.9	950.8	12.9	1.4%
less Cap. Interest	0.0	0.0	0.0	0.0%
Net Interest Expense	937.9	950.8	12.9	1.4%

## **CHAPTER 11: RATE DESIGN**

### **A. INTRODUCTION**

This chapter contains DRA's discussions of rate design for PWC.

### **B. SUMMARY OF RECOMMENDATIONS**

DRA recommends that PWC's rate design be accepted.

### **C. DISCUSSIONS**

PWC based their rate design on the Commission guidelines adopted in Decision 86-05-064. PWC uses a single block rate structure in accordance with Commission guidelines. This rate structure reduces unnecessary complication. DRA sees no reason to protest the proposed rate design at this time.

## **CHAPTER 12: WATER REVENUE ADJUSTMENT MECHANISM (WRAM)**

### **A. INTRODUCTION**

PWC requests Commission authorization for a Water Revenue Adjustment Mechanism (WRAM) balancing account similar to the recent request made by California Water Service Company (CWS) in A.05-08-066. The Commission has previously authorized a WRAM balancing account for California America Water Company (Cal Am) in D.96-12-005. PWC is requesting a WRAM balancing account because of the emphasis placed on water conservation programs from the Commission and the Metropolitan Water District of Southern California.

### **B. SUMMARY OF RECOMMENDATIONS**

DRA recommends that the Commission deny PWC's request for a WRAM balancing account. PWC has not made any specific proposal except for requesting that it be given a similar WRAM to that requested by CWS. The Commission has not issued a final decision in the CWS' rate case. Although, DRA and CWS have reached a settlement on how WRAM should be implemented, it is uncertain at this time whether the Commission will adopt the settlement as submitted or be modified. Furthermore, PWC may be opposed to implementing in whole or in part the final WRAM outcome in the CWS rate case.

### **C. DISCUSSION**

PWC's request for a WRAM is vague and unsupported. For example, the company fails to include any proposal for implementing tiers rates and the criteria for designing these rates. PWC has not demonstrated in its application how its proposed conservation programs would appreciably affect its sale revenues. DRA also believes that any request for a WRAM should also include an evaluation of the associated reduction in business risk and its impact on ROE. Furthermore, PWC's request did not include any samples of calculations of how WRAM would be implemented to illustrate how it would account for projected consumption-related savings and the effects of changing consumption on franchise fees, business taxes and uncollectible debts owed and receivables.

Instead, the company simply cites CWS' WRAM testimony<sup>2</sup> and argues that PWC should be granted a similar WRAM to CWS' request. However, PWC's application is void of any specifics on how it expects the CWS' WRAM mechanism to be applied to PWC. Although, DRA initially opposed CWS' request for various reasons<sup>3</sup>, subsequent to the conclusion of hearings in the CWS' rate case, DRA and CWS reached a settlement agreement on how the WRAM mechanism should be structure and the implementation of tier rates for all customer classes.

However, as mentioned above, this methodology has not been formally adopted by the Commission; it cannot be applied into the current rate case. Thus, it is premature for PWC to be requesting a WRAM without knowing what the final outcome will be in the CWS' rate case. As part of the settlement, DRA and CWS are currently developing the criteria for implementing tier rates. These criteria have been finalized by DRA and CWS, but are yet to be submitted as part of the settlement agreement. Furthermore, there is no certainty that the Commission will adopt the settlement as submitted or be modified. More importantly, PWC may not be amenable to implementing a WRAM as currently proposed in the settlement or adopted by the Commission. For the foregoing reasons, the Commission should dismiss PWC's WRAM request.

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<sup>2</sup> A.05-08-006 et. al, Testimony of Dave E. Morse.

<sup>3</sup> See DRA

## CHAPTER 13: ESCALATION YEARS

### A. INTRODUCTION

Table 13-1 below illustrates the Summaries of Earnings for Escalation Years 2008 and 2009. To obtain the increases in these years, D.04-06-018 requires water utilities to file an Advice Letter 45 days prior to the start of the year showing all calculations supporting their requested increases.

The revenues shown in the table below are for illustration purposes and the actual increases would be authorized only after approval of the utility's escalation year advice letters for 2008 and 2009.

TABLE 13-1  
PARK WATER CO. - CENTRAL BASIN DIV.  
SUMMARY OF EARNINGS (Escalation Years)

Item	@ PROPOSED RATES	
	DRA 2008	DRA 2009
(Dollars in Thousands)		
Operating Revenues	22,210.0	22,795.0
Operating Expenses		
Operation & Maintenance	10,695.5	10,898.8
Administrative and General	6,061.6	6,176.8
Dep'n & Amortization	1,452.5	1,574.1
Taxes Other Than Income	612.9	624.5
State Corp. Franchise Tax	207.0	211.0
Federal Income Tax	838.9	854.9
Total Expenses	19,868.5	20,340.0
Net Income	2,341.5	2,455.0
Ratebase	25,765.7	27,004.6
Rate of Return	9.09%	9.09%

# **APPENDIX A**

## **ESCALATION FACTORS**

**MEMORANDUM**

Date : February 28, 2006

To : Division of Ratepayer Advocates and Water Division

From : M. G. Lyons, Program Supervisor  
DRA Energy Cost of Service Branch

**File No.: S-2559**

Subject: Division of Ratepayer Advocates: Estimates of Non-labor  
and Wage Escalation Rates for 2006 through 2010 from the  
February 2006 Global Insight U.S. Economic Outlook

The purpose of the monthly Escalation Memorandum is to inform division management of the trends in the general price level of utility non-labor expenses and wage contracts. Data are provided for 12 years, which include seven historic years, the estimated current year, and four forecasted years.

The following table summarizes the major changes in forecasted labor and non-labor inflation for years 2006 through 2010. Data for 2005 are provided as benchmarks. The factors for January 2006 are presented for comparison. Due to an increase in petroleum prices in the 2003-2005 Iraq War period, the consumer price index is expected to rise more rapidly; this will impact 2005-06 labor contract settlements tied to the 2004-05 indices. Non-labor inflation for 2007-10 is effectively checked by continued structural changes in the economy such as globalization and improved operating efficiencies. Global Insight forecasts of rising non-labor rates for 2005-06 are the result of temporary price increases in petroleum, chemicals/allied products, metals/metal products, and machinery. Labor escalation continues to be constrained by changes in the labor market due to corporate structural change, outsourcing, and high labor productivity.

## FORECASTED INFLATION

	<b>Labor</b>		<b>Non-labor</b>	
	<u>01/06</u>	<u>02/05</u>	<u>01/06</u>	<u>02/05</u>
2005	2.7%	2.7%	5.4%	5.5%
2006	3.4%	3.4%	3.8%	3.6%
2007	2.6%	2.5%	1.0%	1.1%
2008	1.8%	1.8%	0.6%	0.7%
2009	2.0%	2.0%	0.5%	0.5%
2010	2.0%	1.9%	0.2%	0.3%
Compounded	15.4%	15.2%	11.9%	12.2%

A more extensive explanation of the derivation and use of the above factors and a complete presentation of the escalation factors from 1999 through 2010 are provided in the attached appendix.

## APPENDIX: EXPLANATION OF ESCALATION RATES

The recommended NON-LABOR ESCALATION RATES for 2006 through 2010 are presented in Table A. The values for 1999 through 2005 are provided for comparison.

TABLE A	
<u>Non-Labor</u>	
<u>Year</u>	<u>Inflation Rate*</u>
1999	0.7%
2000	3.5%
2001	0.0%
2002	0.0%
2003	2.5%
2004	5.8%
2005	5.5%
2006	3.6%
2007	1.1%
2008	0.7%
2009	0.5%
2010	0.3%

\* Revised 07/17/97 based on 1995 re-weighted purchases. [Source: BLS, Supplement to Producer Price Indexes, 1995, Table 12]

These escalation rates represent the calendar year average, or alternatively stated, the 12-month-ended spot rate at mid-year. These price factors have not been adjusted for real growth of expensed materials and services. The escalation factors are generated from a composite index of 10 Wholesale Price Indexes (WPI) for materials and supplies expenses and the CPI-U weighted 5% for services and consumer-related items. **These non-labor rates are not applicable to plant, contracted services, loans, insurance,**

**rents, and pensions and other utility employee benefits. Escalation of these expenses is addressed on pages 10-15 of D.04-06-018/R.03-09-005 (Water Rate Case Plan).**

The WAGE ESCALATION RATES in Table B are based on recorded utility labor settlements for 1999 through 2005 and Global Insight projections of the U.S. CPI for All Urban Consumers (CPI-U) for 2006 through 2010.

TABLE B

<u>Year</u>	<u>Wage Increases 1/ 2/</u>	
1999	3.50%/3.50%/3.00%- PG&E/SCE/SoCal	
2000	3.00%/3.50%/3.00%- PG&E/SCE/SoCal	
2001	3.00%/3.50%/3.00%- PG&E/SCE/SoCal	
2002	3.00%/3.50%/3.00%- PG&E/SCE/SoCal	
2003	4.00%/3.25%/3.00%- PG&E/SCE/SoCal	
2004	4.00%/3.50%/3.50%- PG&E/SCE/SoCal	
2005	4.00%/3.50% /3.50%- PG&E/SCE/SoCal	
2006	3.4%	- CPI <u>3/</u>
2007	2.5%	- CPI <u>3/</u>
2008	1.8%	- CPI <u>3/</u>
2009	2.0%	-CPI <u>3/</u>
2010	1.9%	-CPI <u>3/</u>

1/ Wage increases are not adjusted for changes in hours worked or the number of employees. The labor requirement is a separate issue related to the calculation of total payroll.

2/ If the proposed increase is reasonable, witnesses should use the particular utility's actual settlement on the date it becomes effective. The above recorded wage increases are for benchmark purposes only.

3/ CPI-U lagged one year to be consistent with union contracts.

The generally accepted method in labor contracts is to peg a wage increase to the rate of increase in the CPI-U for the previous year. Consequently, these wage escalation rates are based on the previous year's CPI escalation. If the utility is using an index other than U.S. CPI-U, please contact me for directions. The witnesses should familiarize themselves with the actual wage contracts for 1999 through 2010 to ascertain the correct wage formulas, reasonableness, and the effective date of increase for the particular proceeding. The annualized wage increase should reflect the percentage changes in wages weighted by the number of months individual wage rates were in effect.

Other non-labor and labor indices may be used if a witness has more specific knowledge of any particular account. **Those individuals who plan to use their own inflation factors are expressly requested to contact me for approval and direction.** These

forecasts are updated monthly. Please call me if you have any questions relating to these projections.

cc: M. Pocta D. Sanchez  
M. Enderby K. Coughlan F. Curry

State of California  
Commission

Public Utilities

Francisco

San

## **MEMORANDUM**

Date : February 28, 2006

To : D. Sanchez, Program Manager, DRA; K. Coughlan, Director, Water  
Division

From : Martin G. Lyons, Program Supervisor, DRA Energy Cost of Service  
Branch

File No. : S-2559

Subject : DRA February 2006 Summary of Compensation Per Hour

The following data are provided to Commission water utilities staff to enable them to utilize DRA's composite non-labor escalation methodology. The numbers are to be used in conjunction with the non-labor factors provided in DRA's monthly escalation memorandum to bring historic dollars to base year dollars and to inflate recorded dollars to test year levels. More specifically, the annual change in Compensation per Hour is applicable to contracted services, while the non-labor factor is related to material and supply purchases. In accordance with a 1991 agreement between the CPUC Water Division and the California Water Association (CWA), the monthly non-labor rate is to be weighted by 60 percent and the Compensation per Hour Index weighted 40 percent. If you have any questions regarding the application of these factors, please contact me.

**B. *COMPENSATION PER HOUR***

Annual Rate of Change  
Non-farm Business Sector, Seasonally Adjusted

<u>Year</u>	<u>Annual Change</u>
1997	3.6%
1998	5.3%
1999	4.4%
2000	6.9%
2001	2.7%
2002	2.8%
2003	4.0%
2004	4.5%
2005	5.1%
2006	3.5%
2007	3.8%
2008	4.0%
2009	4.1%
2010	4.2%

Source: Global Insight February 2006 U.S. Economic Outlook

## **APPENDIX B**

### **QUALIFICATIONS AND PREPARED TESTIMONY**

**QUALIFICATIONS AND PREPARED TESTIMONY**  
**OF**  
**HANI MOUSSA**

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Hani Moussa and my business address is 320 West 4<sup>th</sup> Street, Suite 500, Los Angeles, California. I am a Program and Project Supervisor in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background.

A2. I graduated from the University of California at San Diego, with a Bachelor of Science Degree in Electrical Engineering. I am a registered electrical engineer in the State of California.

Q3. Briefly describe your educational background and professional experience.

A3. I have been employed by the Commission for many years and have testified and worked on many proceedings. Employed in DRA Water Branch since 2005.

Q4. What is your responsibility in this proceeding?

A4. I am the Project Manager for this proceeding and responsible for the Executive Summary; Chapter 1 – Summary of Earnings; Chapter 6 – Income Taxes; Chapter 8 – Utility Plant in Service; Chapter 9- Depreciation Expense and Reserve; Chapter 10 – Rate Base; Chapter 12 – Water Revenue Adjustment Mechanism (WRAM); and Chapter 13 – Escalation Years.

Q5. Does this conclude your prepared direct testimony?

A5. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY**

**OF**  
**KARIN HIETA**

Q.1. Please state your name and address.

A.1. My name is Karin Hieta. My business address is 505 Van Ness Avenue, San Francisco, California.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed by the California Public Utilities Commission as a Public Utilities Regulatory Analyst III in the Division of Ratepayer Advocates' Telecommunications and Consumer Issues Branch.

Q.3. Please briefly describe your educational background and work experience.

A.3. I received a Bachelor of Science degree, with a double major in Geography and General Social Sciences, from Portland State University in 1999. I received a Master of Arts degree in Spiritual Psychology from University of Santa Monica in 2001. I joined the CPUC in November 2000 as an intern, and have worked here for approximately four years. I testified on service quality in the National Regulatory Framework case, R.01-09-001/I.01-09-002. I researched meteorological and geographic impacts on service quality, using a Geographic Information System (GIS) to create service quality maps and MS Access to analyze service quality data. I jointly designed and taught an introductory class in the application of ArcView GIS and Access to public utilities analysis. I testified on corporate synergies in the SBC/AT&T merger and worked on corporate synergies in the Verizon/MCI merger. I have been responsible for performing analysis and drafting comments on numerous DRA cases, covering a variety of telecommunications topics.

Q.4. What is your area of responsibility in this proceeding?

A.4. I am responsible for the preparation of "Chapter 2—Customers, Sales, and Revenues", "Chapter 7—Conservation", and "Chapter 11—Rate Design" in the

Results of Operations Report for Park Water Company's application for a General Increase in Rates for test year 2007.

Q.5. Does that complete your prepared testimony?

A.5. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY**  
**OF**  
**MARTIN HOMEC**

- Q1. Please state your name and business address.  
A1. My name is Martin Homec. My business address is Room 4209, 505 Van Ness Avenue, San Francisco, California 94102.
- Q2. By whom are you employed and in what capacity?  
Q2. The California Public Utilities Commission (CPUC) employs me as a Public Utility Regulatory Analyst in the Division of Ratepayer Advocates.
- Q3. Please describe your educational background and professional experience.  
A3. I received a B.A. in Physics from the University of California. The CPUC has employed me for the past eighteen years. I have worked on rate case applications for energy utilities during that period.
- Q4. What is the purpose of your testimony?  
A4. I am sponsoring Chapter 3- Operations and Maintenance, Chapter 4 - Administrative and General Expenses, and Chapter 5 – Taxes Other than Income.
- Q5. Does this complete your testimony?  
A5. Yes, it does.